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Chief Executive Officer

September 14, 2012

To: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

MOTION BY SUPERVISOR KNABE TO OPPOSE ACROSS-THE-BOARD SEQUESTRATION CUTS FOR FISCAL YEAR 2013 AND TO URGE THE ADMINISTRATION AND CONGRESS TO DEVELOP A LONG-TERM BUDGET COMPROMISE (ITEM NO. 7, AGENDA OF SEPTEMBER 18, 2012)

Item No. 7 on the Agenda for September 18, 2012, is a motion by Supervisor Knabe that the Board of Supervisors oppose across-the-board sequestration cuts for Fiscal Year (FY) 2013 and urge both the Administration and Congress to work together to develop a sensible long-term budget compromise, and that a letter be sent to the Administration and the County's Congressional delegation informing them of the Board's opposition to the cuts and urging them to develop a long-term budget compromise.

Background Information on Across-the-Board Sequestration Cuts

The Budget Control Act (BCA), which was enacted on August 2, 2011, increased the Federal debt ceiling by between $2.1 trillion and $2.4 trillion and reduced the Federal budget deficit by a like amount over the next 10 years. Under the BCA, because $1.2 trillion in deficit reduction was not enacted through its "Super Committee" process last year, a combined total of $984 billion in sequestration spending cuts spread over nine years will be imposed, including $109.333 billion in across-the-board cuts in FY 2013, which will be imposed in January 2013. The BCA provides that the sequestration cuts are to be divided equally between defense and non-defense spending ($54.667 billion for each category in FY 2013). It also includes exemptions or special rules for the application of sequestration cuts to certain programs. Many mandatory spending programs are exempt from sequestration cuts, including Medicaid, Temporary Assistance for Needy Families (TANF), Title IV-E Foster Care and Adoption Assistance, Supplemental Nutrition Assistance Program (SNAP), and Child Support Enforcement, which account for most of the County's total Federal revenue. However, few discretionary programs, which are funded through annual appropriations bills, are exempt from sequestration cuts.

As previously reported to the Board, the BCA's sequestration cut procedures, including its program exemptions and special rules, are modeled after similar procedures included in the 1985 Gramm-Rudman-Hollings deficit reduction law. When that law was in effect, sequestration cuts rarely were imposed, and the percentage cuts were extremely small. This is because sequestration itself never was intended to be implemented. Instead under both the 1985 law and the BCA, sequestration is intended to be a budget enforcement mechanism which "forces" Congress to take action to reduce the budget deficit.

On September 14, 2012, the Office of Management and Budget (OMB) issued a report to Congress which provided more detailed information on the potential impact of the FY 2013 sequestration cuts. The OMB cautioned that the estimates in the report, which was required by the Sequestration Transparency Act of 2012 (Public Law 112-155), are preliminary and subject to change. According to OMB's preliminary estimates, non-exempt programs would be cut by the following percentages in FY 2013: non-defense discretionary (8.2%); defense discretionary (9.4%); non-defense mandatory (7.6%); and defense mandatory (10.0%). The OMB report importantly indicated that Medicaid, TANF, SNAP, Title IV-E, and Child Support Enforcement are exempt from sequestration cuts, which means that most of the County's Federal revenue is exempt from such cuts. Counting the Medicaid share of In-Home Supportive Services costs, Medicaid alone accounts for over half of the County's total Federal revenue.

The OMB report also states that the threat of sequestration was intended to be a "mechanism to force Congress to act on further deficit reduction" and that the "Administration remains ready to work with Congress to enact a balanced plan that achieves at least the level of deficit reduction agreed to in the BCA, and cancels the sequestration."

Motion to Oppose FY 2013 Across-the Board Sequestration Cuts

Supervisor Knabe's motion recommending opposition to the across-the-board sequestration cuts for FY 2013 and that the Administration and Congress develop a sensible long-term budget compromise is a matter for the Board's determination. The Federal Legislative Outlook and Priorities for 2012, which I sent to the Board on January 18, 2012, indicated that the County's overarching Federal priority this year is to protect the County against the loss of Federal revenue or shift in costs to the County, which could result from proposals to reduce the Federal budget deficit or to finance increased spending in one program by reducing spending in other programs of greater benefit to the County. We had anticipated that, similar to last year, the biggest Federal issues for the County would be budget-related and would include issues relating to reducing the Federal budget deficit and alternatives to sequestration cuts.

The Administration and Members of Congress from both parties have called for replacing sequestration cuts with alternative deficit reduction measures. However, Democrats and Republicans disagree on how to replace the sequestration cuts. Most notably, Congressional Republicans want to replace sequestration cuts, which are divided equally between defense and non-defense spending, with alternative spending cuts, including deeper cuts in non-defense spending, as reflected in H.R. 6365, the sequestration replacement bill which the House passed along party lines on September 13, 2012.

In contrast, Congressional Democrats and the Administration support replacing sequestration cuts with a combination of alternative spending cuts and tax revenue increases. This reflects broader differences between the two parties on budget issues with Republicans supporting the extension of President Bush's tax cuts which expire at the end of 2012 and deficit reduction entirely through spending cuts and with Democrats supporting the expiration of certain tax cuts, such as those benefiting very high income persons, and deficit reduction through a combination of spending cuts and revenue increases.

Major budget issues, such as expiring tax cuts, alternatives to sequestration, and the need to further increase the Federal debt ceiling, will not be addressed until a "lame duck" session after the November elections. There also is increased speculation that most, if not all, of these major pending budget issues will be further deferred until next year after the new Congress and possibly new President takes office. Bipartisan agreement already has been reached on a six-month FY 2013 Continuing Resolution, which postpones the enactment of full-year FY 2013 appropriations until next year.

We will continue to keep you advised.

WTF:RA
MR:MT:ma

c: Executive Office, Board of Supervisors
County Counsel